

MAGELLAN HEALTH INC
Form 10-Q
April 26, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the Quarterly Period Ended March 31, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from to

Commission File No. 1 6639

MAGELLAN HEALTH, INC.

(Exact name of registrant as specified in its charter)

Delaware	58 1076937
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
4800 N. Scottsdale Rd, Suite 4400	85251
Scottsdale, Arizona	(Zip code)
(Address of principal executive offices)	

(602) 572 6050

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant’s Ordinary Common Stock outstanding as of March 31, 2017 was 23,717,121.

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MAGELLAN HEALTH, INC. AND SUBSIDIARIES

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	December 31, 2016	March 31, 2017 (Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents (restricted balances of \$81,776 and \$73,272 at December 31, 2016 and March 31, 2017, respectively)	\$ 304,508	\$ 273,587
Accounts receivable, less allowance for doubtful accounts of \$5,644 and \$6,171 at December 31, 2016 and March 31, 2017, respectively	606,764	634,102
Short-term investments (restricted balances of \$227,795 and \$220,284 at December 31, 2016 and March 31, 2017, respectively)	297,493	306,549
Pharmaceutical inventory	58,995	62,374
Other current assets (restricted balances of \$38,785 and \$34,002 at December 31, 2016 and March 31, 2017, respectively)	51,507	52,717
Total Current Assets	1,319,267	1,329,329
Property and equipment, net	172,524	166,536
Long-term investments (restricted balances of \$6,306 and \$5,699 at December 31, 2016 and March 31, 2017, respectively)	7,760	7,151
Deferred income taxes	3,125	4,507
Other long-term assets	12,725	15,709
Goodwill	742,054	742,775
Other intangible assets, net	186,232	177,054
Total Assets	\$ 2,443,687	\$ 2,443,061
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 95,635	\$ 82,385
Accrued liabilities	202,176	165,632
Short-term contingent consideration	9,354	9,761
Medical claims payable	184,136	174,302
Other medical liabilities	197,856	202,533
Current debt and capital lease obligations	403,693	428,795
Total Current Liabilities	1,092,850	1,063,408
Long-term debt and capital lease obligations	214,686	207,549
Tax contingencies	13,981	14,764
Long-term contingent consideration	1,799	1,343
Deferred credits and other long-term liabilities	15,882	20,032
Total Liabilities	1,339,198	1,307,096

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Redeemable non-controlling interest	4,770	4,492
Preferred stock, par value \$.01 per share Authorized—10,000 shares at December 31, 2016 and March 31, 2017-Issued and outstanding-none	—	—
Ordinary common stock, par value \$.01 per share Authorized—100,000 shares at December 31, 2016 and March 31, 2017-Issued and outstanding-51,993 shares and 23,517 shares at December 31, 2016, respectively, and 52,193 and 23,717 shares at March 31, 2017, respectively	520	522
Multi-Vote common stock, par value \$.01 per share Authorized—40,000 shares at December 31, 2016 and March 31, 2017-Issued and outstanding-none	—	—
Other Stockholders' Equity:		
Additional paid-in capital	1,186,283	1,200,309
Retained earnings	1,289,288	1,307,035
Accumulated other comprehensive loss	(175)	(196)
Ordinary common stock in treasury, at cost, 28,476 shares and 28,476 shares at December 31, 2016 and March 31, 2017, respectively	(1,376,197)	(1,376,197)
Total Stockholders' Equity	1,099,719	1,131,473
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	\$ 2,443,687	\$ 2,443,061

See accompanying notes to consolidated financial statements.

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MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2016	2017
Net revenue:		
Managed care and other	\$ 676,461	\$ 729,340
PBM and dispensing	440,561	576,283
Total net revenue	1,117,022	1,305,623
Costs and expenses:		
Cost of care	457,631	482,054
Cost of goods sold	415,459	542,633
Direct service costs and other operating expenses (1)(2)	192,456	221,486
Depreciation and amortization	25,007	26,976
Interest expense	1,748	4,148
Interest and other income	(683)	(949)
Total costs and expenses	1,091,618	1,276,348
Income before income taxes	25,404	29,275
Provision for income taxes	12,013	11,806
Net income	13,391	17,469
Less: net income (loss) attributable to non-controlling interest	154	(278)
Net income attributable to Magellan Health, Inc.	\$ 13,237	\$ 17,747
Net income per common share attributable to Magellan Health, Inc.:		
Basic (See Note B)	\$ 0.56	\$ 0.77
Diluted (See Note B)	\$ 0.54	\$ 0.74

(1) Includes stock compensation expense of \$8,887 and \$10,140 for the three months ended March 31, 2016 and 2017, respectively.

(2) Includes changes in fair value of contingent consideration of \$(266) and \$(49) for the three months ended March 31, 2016 and 2017, respectively.

See accompanying notes to consolidated financial statements.

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MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2016	2017
Net income	\$ 13,391	\$ 17,469
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities (1)	238	(21)
Comprehensive income	13,629	17,448
Less: comprehensive income (loss) attributable to non-controlling interest	154	(278)
Comprehensive income attributable to Magellan Health, Inc.	\$ 13,475	\$ 17,726

(1) Net of income tax provision (benefit) of \$146 and \$(12) for the three months ended March 31, 2016 and 2017, respectively.

See accompanying notes to consolidated financial statements.

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MAGELLAN HEALTH, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31,

(Unaudited)

(In thousands)

	2016	2017
Cash flows from operating activities:		
Net income	\$ 13,391	\$ 17,469
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	25,007	26,976
Non-cash interest expense	102	253
Non-cash stock compensation expense	8,887	10,140
Non-cash income tax benefit	(538)	(1,010)
Non-cash amortization on investments	1,844	1,112
Cash flows from changes in assets and liabilities, net of effects from acquisitions of businesses:		
Accounts receivable, net	(13,538)	(27,699)
Pharmaceutical inventory	(5,121)	(3,379)
Other assets	(35,839)	(1,172)
Accounts payable and accrued liabilities	11,406	(52,838)
Medical claims payable and other medical liabilities	(38,292)	(5,160)
Contingent consideration	734	(49)
Tax contingencies	289	506
Deferred credits and other long-term liabilities	(227)	4,150
Other	34	(421)
Net cash used in operating activities	(31,861)	(31,122)
Cash flows from investing activities:		
Capital expenditures	(15,611)	(10,939)
Acquisitions and investments in businesses, net of cash acquired	(15,641)	(200)
Purchase of investments	(157,020)	(141,432)
Maturity of investments	144,902	131,840
Net cash used in investing activities	(43,370)	(20,731)
Cash flows from financing activities:		
Proceeds from issuance of debt	—	200,000
Payments to acquire treasury stock	(7,992)	—
Proceeds from exercise of stock options and warrants	7,784	4,945
Payments on debt and capital lease obligations	(4,154)	(182,738)
Payments on contingent consideration	(2,000)	—
Other	(72)	(1,275)
Net cash (used in) provided by financing activities	(6,434)	20,932
Net decrease in cash and cash equivalents	(81,665)	(30,921)
Cash and cash equivalents at beginning of period	249,029	304,508
Cash and cash equivalents at end of period	\$ 167,364	\$ 273,587

Supplemental cash flow data: